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Debt Composition and Attitude towards Education Loan among Malaysian Graduates

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Abstract

A worrying trend in the Malaysian higher education environment is that students graduating not only with diplomas or degrees of their disciplines but also with debts. Graduates with debts becomes a serious issue when many of the graduates faced difficulties in repaying not only their education loan but also other debts that they create since entering the job market. This paper examines the debt composition of 186 graduates and their attitudes towards education loans. The education debt-to-income ratio is found to be in the range of 1.8 percent to 12 percent; where a ratio beyond 8 percent is deemed unsafe.

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Keywords: Graduate debts; education loan; debt-to-income ratio; higher education; attitude to education debts

1. Introduction

The Malaysian higher education sector has expanded rapidly during the past decade, with increasing number of students enrolling in both public and private universities and colleges. A driving force behind the expansion was believed to be the large provision of student loans. Since its establishment in 1997, the National Higher Education Fund Corporation (PTPTN) had given out RM24 billion to around 1.3 million

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students in the country. However, up to last year, only RM2.3 billion was collected in loan repayment despite various reminders issued to the borrowers (Bernama, 3/2/2011).

This situation reflects a worrying trend in the higher education environment where students graduating not only with diplomas or degrees of their disciplines but also with some levels of debts. Debts seem to be a norm; part and parcel of college experience. Graduates with debts become a more serious issue when many of the young graduates faced difficulties in repaying not only their education loan but also other debts that they create since entering the job market.

This paper intends to explore the question of whether the Malaysian graduates' education debt levels are manageable financially and emotionally by looking at their debt composition and their attitude towards payment of education loans.

2. Literature Review

2.1. Education Loan and Debt Composition

With the rising costs of higher education, education loan has become an important financing tool for students from all income levels although it was originally meant for the middle class (Bertola and Hochguertel, 2005). Thus, most students actually create debts the moment they registered for a college or a university. Norvilitis et al. (2003) found that graduates created debts through credit cards and that college students were a huge market for credit card companies. However, according to Bertola and Hochguertel (2005) also, this has occurred with relatively little attention to pay. Once they get their first job and salary, they will create other debts such as credit card, car loan or housing loan.

A comparative study between students in England and France found that education loans were major sources of finance at university among English students while contribution from parent was the major source of finance among the French. It follows that student and bank loans were the major debt components among the English students (Curtis and Klapper, 2005). In other countries like Australia and the United States, almost every graduate received some kind of financial aid for their higher education and government loan was the most important source besides the financial institutions and private bodies. Similarly in Malaysia, study loans provided by the PTPTN was the most dominant source of financial aid for students, especially in private higher education institutions (Nor Rashidah et al., 2009).

2.2. Attitude towards education loan

Students at higher institutes of education were very optimistic about their future earning potentials and that this optimism was unrelated to their academic performance (Norvilitis et al., 2003). Students accumulate debt because they believe that their current financial situation is temporary and that short-term debt will be repaid easily and is not a big problem. The expectations are that as soon as they graduate, income will increase and debt will decrease. Thus, students may both underestimate the length of time that will take to repay debt and overestimate their ability to pay off debt. Studies among low-income borrowers revealed that students with high education loan debt had lower average salaries, resulting in higher average payment-to-income ratios, which makes the repayment difficult (Price, 2004; Baum and O'Malley 2003).

Borrowers whose loans were held by more than one provider were more likely to default, with each additional provider increasing the chances of default by 18 percent (Woo, 2002). However, he also argued that borrowers with high indebtedness are actually less likely to default than borrowers with low indebtedness, perhaps because high indebtedness is associated with more schooling and thus more success, which is the main variable associated with low default. A survey on 1500 undergraduates at

Universiti Putra Malaysia revealed that many students perceived education loan as a burden and a significant proportion of them have negative attitude towards the loan repayment (Elistina et al., 2006).

3. Methodology

3.1. Data and Sample

The data for this study was collected using a self-administered questionnaire survey. The survey population consisted of graduates who were Malaysian and holding diplomas or degrees from public and private higher education institution, either locally or abroad. The survey managed to get a sample of 186 respondents staying or working in Klang Valley.

3.2. Instrument and Variables

The instrument used in this research was a self-administered questionnaire. The questionnaire consists of 4 sections; Section A was on the general particulars of respondents' demographic characteristics, Section B was about their debt composition, Section C asked about their attitude towards education loan, and finally Section D was on respondents' parents' socio-economic status.

4. Findings and Analysis

4.1. Demographic Characteristics

Table 1 displays the demographic characteristics of the survey respondents. A total of 186 graduates participated in the survey, where 55 percent were degree holders from public universities, 21 percent with degrees from private universities while 24 percent were diploma holders from public and private colleges. The sample was 47 percent females and 140 of the respondents were under age of 30, while 2 percent were over age 40.

Table 1. Demographics of Respondents

Gender	
Male	53%
Female	47%
Age	
25 or younger	39%
26-30	37%
31-35	12%
> 35	12%
Gross monthly income (RM)	
< 2000	40%
2001-4000	52%
>4000	8%
Marital status	

Single	56%
Married	44%
Highest level of education completed	
Diploma	46%
Degree	51%
Master	3%
Type of Higher Education Institution attended	
Public university	55%
Private university	21%
Public college	13%
Private college	11%
Current working status	
Working full-time	91%
Working part-time	4%
Working full-time and part-time	2%
Unemployed	3%

4.2. Debt Composition

Table 2. Ranking of Spending Priority

Current spending	Mean	Ranking
Living expenses	2.15	1
Payment on car loan	3.35	2
Savings	4.01	3
Contribution to parents	4.19	4
Payment for education loan	4.25	5
Payment on housing loan	4.70	6
Payment for credit card usage	6.19	7

Note: 1=most important to 7=least important

Table 3 shows the major debt composition of the respondents, the range of total debt levels and monthly loan payments. Out of 186 respondents, 166 received education loans with the total amount in the range of RM3,000 to RM100,000. For respondents who took car loans, the total amount was in the range of RM6,000 to RM120,000 with the instalment of between RM170 to RM1,250 per month. Among those who had housing loans, the total amount was in the range of RM40,000 to RM300,000 with the monthly instalment of between RM220 to RM2,000. Personal loan was between RM10,000 to RM100,000. Lastly, the monthly allocation for credit card payments was in the range of RM100 to RM1,000.

Table 3. Borrower Debt Levels and Monthly Payments

Type of Loan	Total amount (RM)	Monthly payment (RM)
Education Loan Debt	3,000-100,000	50-300
Car Loan	6,000-120,000	170-1250
Housing Loan	40,000-300,000	220-2,000
Personal Loan	5,000-100,000	100-850
Credit card		100-1,000

4.3. Education Loan Debt

Table 4 shows minimum, maximum, and average debt levels for education loan debt. On average, a graduate accumulated RM36,864 in education loan debt. Because the mean is significantly affected by the relatively small number of borrowers with very high debt levels, the median, which was RM23,000, could be a better representation of the sample in this study.

Table 4. Education Loan Debt By Type of Institution

Education Loan Debt	Overall Mean: RM 36,864	Overall Median: RM 23,000	
Debt By Type of Institution	Min (RM)	Max (RM)	Mean (RM)
Public university	10,000	80,000	23,735
Private university	7,500	100,000	31,324
Public college	9,000	70,000	27,000
Private college	20,000	80,000	53,750

Debt levels differ considerably depending on the type of institution attended. Those who attended private colleges and universities borrowed most with the average of RM53,750 and RM31,324 respectively. At public universities, the average debt was RM23,735; about the same as the overall median.

From 166 respondents who received education loans, only 135 (81.3 percent) reported to be paying the debt. As shown in Table 5, most respondents allocated between RM100 to RM300 a month as payment for the education loan debt.

Computing the education debt-to-income ratio, majority of borrowers (54 percent) had below 4 percent ratio. However, 17 percent of the borrowers had higher than 8 percent ratio, which is deemed unsafe by previous researches (Greiner, 1996; Scherschel, 1998).

The remaining 31 respondents who had not been paying the education loan debt cited insufficient income as the main reason (41 percent) followed by not being contacted by the loan provider (24 percent), inconvenient process (6 percent) and not working yet (12 percent).

A quite troubling finding was the presence of unethical behavior in a fraction of borrowers who simply refused to pay (12 percent) and a lacksadaical attitude towards education loan repayment (6 percent).

Table 5. Education Loan Debt

Monthly instalment (RM)	% of respondents	Education debt-to-income ratio	% of respondents
<100	31.4%	< 2%	16
100-200	49%	2% - 4%	38
201-300	19.6%	5% - 8%	29
		>8%	17

4.4. Attitude Towards Education Loan Debt

In the survey, respondents were asked a variety of questions to determine how they feel about their education loans. As shown in Table 6, 24 percent of the respondents reported feeling burdened by their loans and 53 percent faced difficulties in paying the education loan debts. However, only 5 percent expressed disagreement that the benefits of higher education were worth the burden of borrowing.

Table 6. Attitude Towards Education Debt Burden

To what extent do you feel burdened by your education loan payment?	
Not burdened	28%
Neutral	48%
Burdened	24%
I have little or no difficulty in my education loan payment.	
Agree	38%
Neutral	9%
Disagree	53%
Making loan payment is unpleasant but I know the benefits of higher education loans are worth it.	
Agree	60%
Neutral	35%
Disagree	5%

5. Conclusion

The combination of rising costs of higher education and difficult economic times would make loans a more prominent feature of financial aid in the future. After graduation, students accumulated not only education loan debt but other debts as well, such as the credit cards, housing/mortgage loan, and hire purchase like cars. However the repayment of education loan seemed not a priority for most of borrowers, where in this study, the education loan was ranked fifth after living expenses, payment on car loan, savings and contribution to parents. This might explain the low collection rate by the PTPTN. A systematic evaluation of the loan scheme in terms of loan screening and design/structure by loan providers to examine related issues such as the size of loans, eligibility criteria and repayment terms for every application is thus suggested.

A clear analysis of manageable debt levels would also facilitate in evaluating the impact of this increasing reliance on loans, especially on students most likely to be vulnerable to repayment problems.

Despite the positive attitude on the role of education loans, concern over excessive debt may prevent students from making educational choices they would actually prefer in the absence of financial barriers

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